Gould Asset Management®

Q1

Economic & Market Review

First Quarter 2021

Economic Review

First Quarter 2021

GOULD ASSET MANAGEMENT®

US Economy Gaining Momentum

The US economy expanded at a 4.3% annualized rate in the fourth quarter of 2020. Last year was the first annual contraction since the Great Financial Crisis (2007-2009), but the fourth quarter's growth, combined with positive signs this year, point to rising expectations for 2021.

Unemployment fell to 6.0% last month as the economy added 916,000 jobs in March, with the hospitality sector leading the way. While this is great news for the improving economy, the headline unemployment rate does not capture the nearly 4 million workers no longer in the labor force compared to the beginning of last year. With those included, unemployment is closer to 9%.

Manufacturing activity soared in March with strong growth in new orders, production, and employment. The sector faces component shortages and higher costs caused by global supply disruptions ranging from freezing weather in Texas to the Suez Canal blockage to a worldwide shortage of semiconductors.

US home prices surged over the past year, rising more than 15%. Existing home sales fell in February, held back by extraordinarily low inventory. New home sales also declined on the heels of disruptive winter weather. Demand for new and existing homes remains high. Historically low mortgage rates and a rebounding economy could keep the housing market hot for some time.

The Fed Sees a Brighter Light at the End of the Tunnel

The Federal Reserve pledged to keep dovish monetary policies in place, keeping short-term interest rates low and continuing its open-market bond purchases until the economy recovers further from the pandemic. Most Fed officials do not forecast a rate hike before 2024, but investors increasingly expect one sooner.

In its projections, **the Fed sees a much stronger economy and higher inflation** in 2021. Latest figures show the economy expanding by 6.5%, its strongest pace since the early 1980s, and the inflation rate rising to 2.4%.

Fed Chair Jerome Powell stressed that **any pickup in inflation will likely be transitory** and will not require raising its federal funds rate.

Economic Review

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Europe's Economy Takes a U-Turn

The euro area economy shrank 0.7% over the fourth quarter as ongoing lockdowns weighed on household consumption. Italy and France were hit hardest, with both economies shrinking in the period.

The area's economic prospects aren't expected to turn quickly. Europe's vaccination campaign is significantly lagging the US and as a result, several countries are still imposing lockdown measures.

Japan is faring better, with its economy expanding 2.8% over the fourth quarter. However, unlike the US, Bank of Japan officials are still concerned about deflation, hinting they might reduce short-term interest rates further into negative territory.

China Leads the Way in Two-Track Recovery for Emerging Markets

China's economy grew 2.3% in 2020, making it the only major economy to post positive full-year growth. Manufacturing and construction activity picked up in the first quarter and Chinese officials set a growth target of 6% for 2021.

India's manufacturing and service sectors are contributing to a strong rebound but a recent spike in Covid cases threatens the recovery. India is third worldwide in cases and fourth in deaths.

Brazil's central bank trimmed its growth expectation for 2021 to 3.6%, citing "above-usual uncertainty" surrounding the pace of recovery from the coronavirus pandemic. Brazil is second globally in both case count and death toll.

Market Review: Stocks

First Quarter 2021

Gould Asset Management

Stocks Continue to Climb as Congress Passes Additional Stimulus and Vaccine Rollout Ramps Up

After a strong finish to 2020, **domestic and international stocks didn't miss a beat in Q1, climbing higher** as vaccinations progressed and world economies showed signs of recovery.

US equities led the charge, with large cap stocks rising 6.2% as measured by the S&P 500 index. Investors cheered an additional $1.9 trillion in Covid-related stimulus, as well as a robust vaccination rollout in the US.

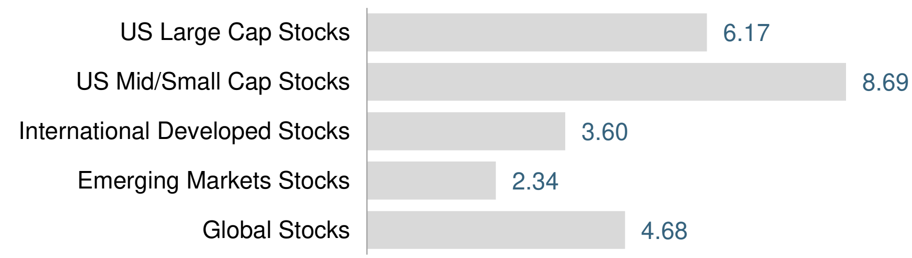
Financial stocks performed best, rising 16.0% on the quarter (thanks in part to higher interest rates), **followed by industrials,** which rose 11.4%. **The technology sector was a laggard,** rising only 2.2% after a strong 2020 showing in which the sector rose 43.9%. We will see if this is simply a short-lived pause or part of a larger sector rotation as 2021 progresses.

Mid and small cap US stocks outperformed large cap stocks for the fourth straight quarter, with the Wilshire 4500 stock index rising 8.7% to start the year.

International developed and emerging markets stocks failed to keep pace with US stocks, with the MSCI EAFE index rising 3.6% and the MSCI Emerging Markets index gaining 2.3% in Q1. Aside from Israel and the UK, vaccine deployment internationally has lagged, slowing the post-Covid economic recovery. A strengthening US dollar (up 2.3%) also dampened foreign stock returns.

Market volatility subsided in the first quarter, a common phenomenon during periods of rising stock prices. The VIX volatility index started the year around 23, declining to under 20 by quarter-end.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	6.17	56.35	16.78	16.29
US Mid/Small Cap Stocks	8.69	99.00	18.50	18.38
International Developed Stocks	3.60	45.15	6.54	9.37
Emerging Markets Stocks	2.34	58.92	6.87	12.48
Global Stocks	4.68	55.31	12.66	13.81

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US)

Market Review: Bonds

First Quarter 2021

Bonds Fall as Interest Rates and Inflation Expectations Move Higher

US bonds posted their worst quarterly return in nearly 30 years, dropping 3.4% as bond yields rose from near historic lows on expectations of economic recovery and higher inflation.

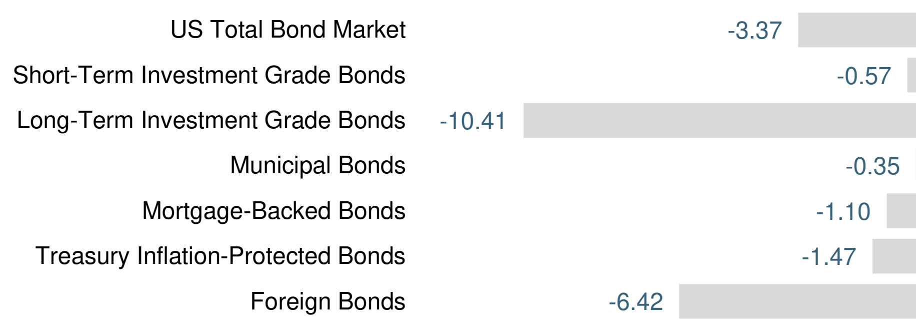
The yield on 10-year US Treasurys rose 0.81% on the period, from 0.93% on December 31st to 1.74% by quarter end, its highest level since pre-pandemic January 2020. Short-term interest rates (3-month and 2-year rates) were largely unchanged, so the yield curve steepened considerably.

Bond duration (a measure of a bond's effective maturity and, therefore, its price sensitivity to interest rate changes) **was the primary driver of performance, with long-term bonds the hardest hit** (down 10.4%) on the quarter.

With short-term interest rates relatively unchanged and inflation expectations on the rise in the first quarter, **short-term Treasury-Inflation Protected Securities (TIPS) were among the top performing bond sectors on the period,** rising 1.1%. TIPS interest and principal payments are adjusted upward for inflation, making them an attractive investment when the cost of living is expected to rise.

High yield bonds were also a bright spot, rising 0.9% in the first quarter as credit spreads tightened and economic conditions improved. **Tax-free municipal bonds also held their ground,** falling a modest 0.4% to start the year, helped by the federal stimulus package and the possibility of higher income tax rates ahead.

Returns for the Quarter (%)



Period Returns (%)

*Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	-3.37	0.71	4.65	3.10
Short-Term Investment Grade Bonds	-0.57	1.90	3.66	2.33
Long-Term Investment Grade Bonds	-10.41	-2.05	7.14	5.47
Municipal Bonds	-0.35	5.51	4.91	3.49
Mortgage-Backed Bonds	-1.10	-0.09	3.75	2.43
Treasury Inflation-Protected Bonds	-1.47	7.54	5.68	3.86
Foreign Bonds	-6.42	5.65	0.88	1.99

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Market Review: Alternatives

First Quarter 2021

Energy Stocks and REITs Lead Alternatives in Q1, as Gold Retreats

Alternative investments rose in the first quarter, except for gold, with many of the asset classes benefiting from the market's continued run and rising investor optimism about the outlook for global growth.

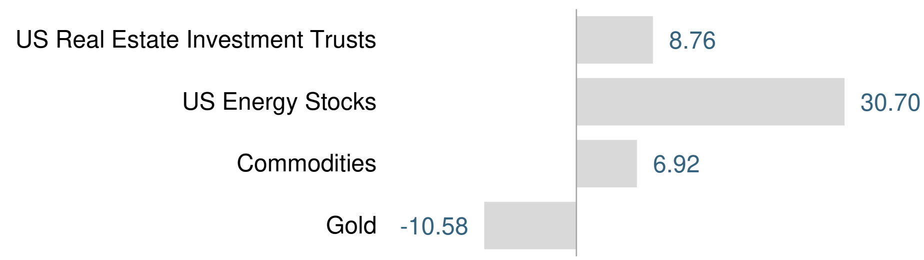
US energy stocks (up 30.7%) **posted the strongest gains of the alternative asset classes** in the first quarter, driven by a strong move up in the price of crude oil on the back of higher demand and controlled supply. **This positively impacted commodities** (up 6.9%), of which energy is a significant component. Industrial metals, led by strong gains for aluminum and copper, also contributed positively, as did gains in the agricultural sector.

Real estate investment trusts maintained their momentum to start the year, rising 8.8% in the first quarter. The improving economic outlook has investors more optimistic about the prospects for businesses and their demand for commercial real estate, and REITs are now back near their pre-Covid highs. The sector could be sensitive to how quickly the US can reopen and how fully businesses shift back to in-person work environments.

After rising 27.0% in 2020, **gold retreated 10.6% in the first quarter, a somewhat curious result** considering the precious metal has historically performed well during periods of rising inflation expectations, as was the case in Q1. Gold's value is more complicated than that, however, and can be driven by factors as mundane as the overall demand for jewelry, or as speculative as the path of competing alternatives like Bitcoin.

Higher interest rates can also pressure gold, as investors weigh the pros and cons of alternative "safe haven" investments, such as US Treasurys.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	8.76	37.69	9.51	5.32
US Energy Stocks	30.70	78.21	-5.05	-0.19
Commodities	6.92	35.04	-0.20	2.31
Gold	-10.58	7.50	9.32	7.29

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Real Estate Investment Trusts (MSCI US REIT Index), US Energy Stocks (S&P 500 Energy), Commodities (Bloomberg Commodity Index), and Gold (London Bullion Market Association Gold P.M. Price). Gold spot price data obtained from Federal Reserve Economic Data.

Market Summary

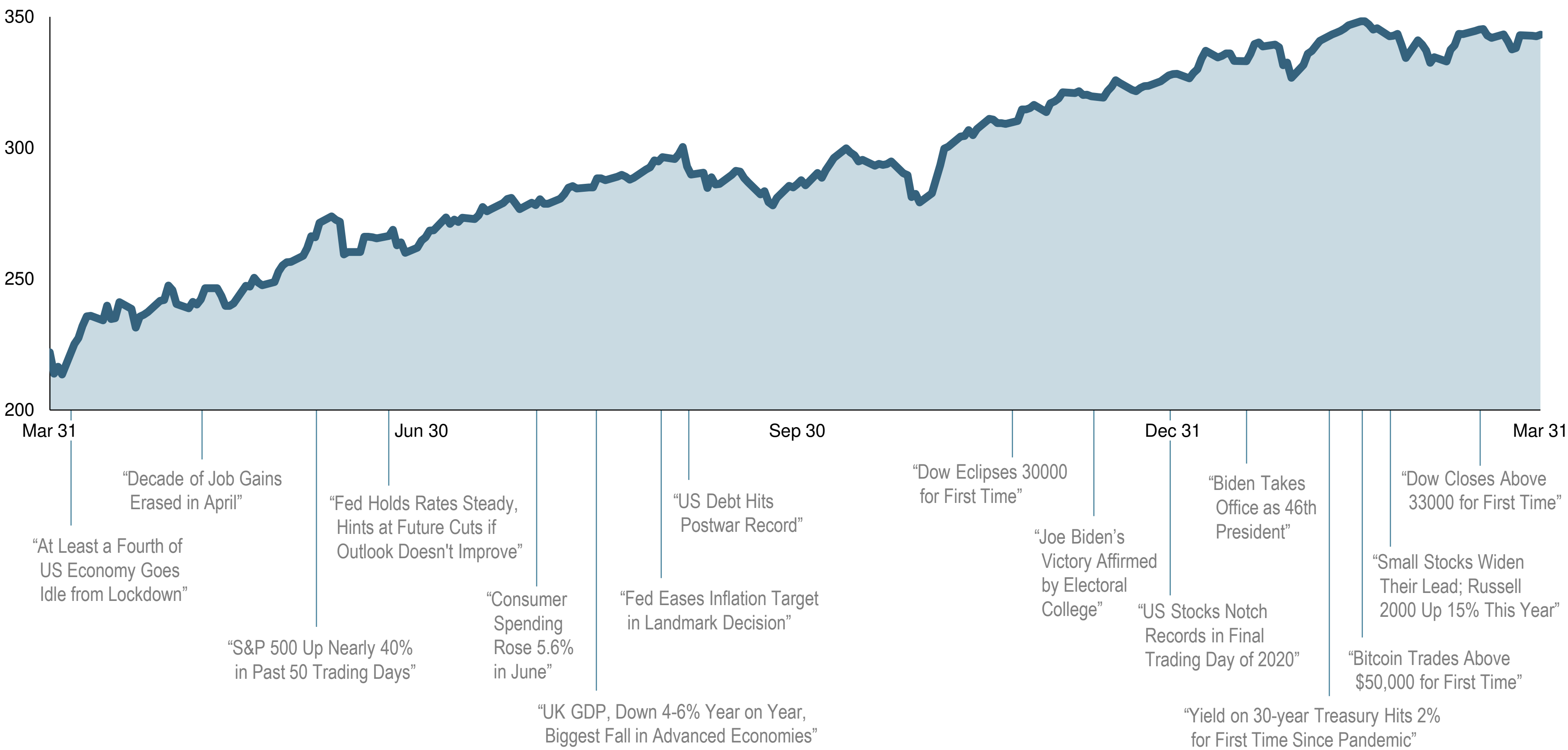
Index Returns

	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets		US Bond Market	US Dollar
Q1 2021	**STOCKS**					**BONDS/DOLLAR**	
	6.17%	**8.69%**	**3.60%**	**2.34%**		**-3.37%**	**2.31%**
Since Jan. 2001							
Avg. Quarterly Return	2.2%	3.1%	1.7%	2.9%		1.2%	0.3%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**		4.6% **Q3 2001**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**		-3.4% **Q1 2021**	-5.8% **Q2 2009**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

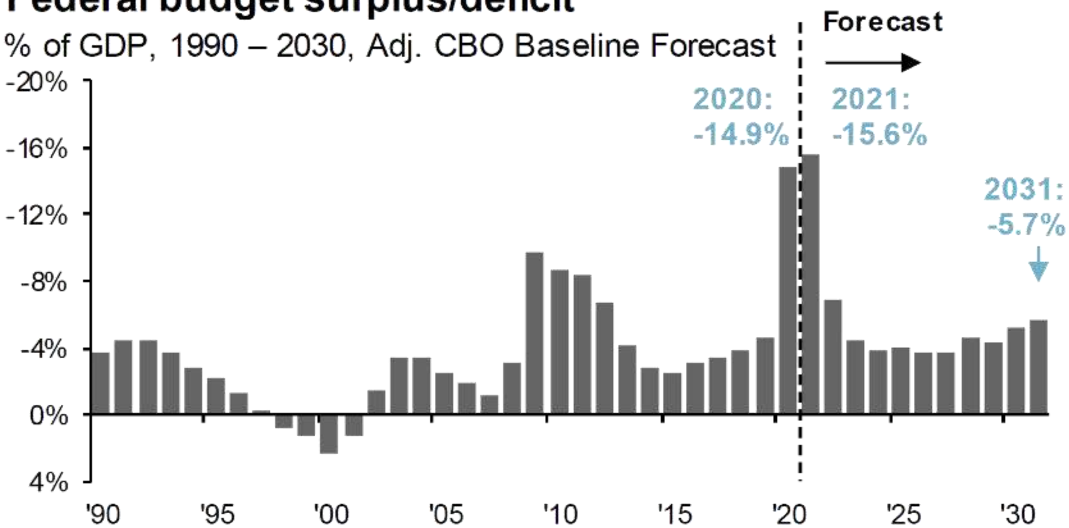
Federal Finances

First Quarter 2021

Gould Asset Management

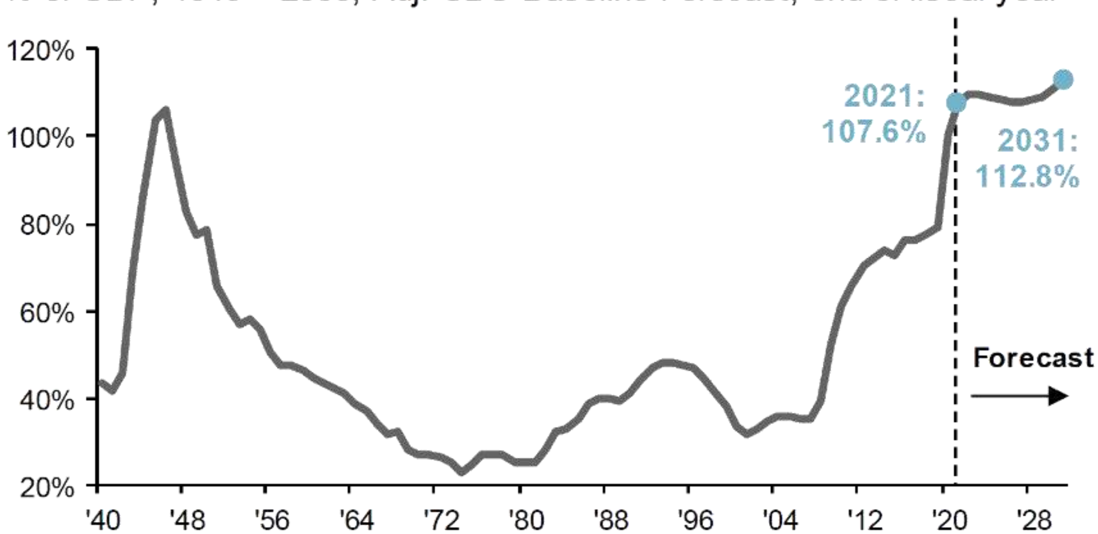
Federal budget surplus/deficit

% of GDP, 1990 – 2030, Adj. CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940 – 2030, Adj. CBO Baseline Forecast, end of fiscal year



These charts show the history of US federal government deficits and debt, along with Congressional Budget Office (CBO) projections. The top chart shows the annual federal budget deficit – the excess of government spending over tax revenue – each year since 1990, including projections to 2031.

The bottom chart shows the federal net debt (that is, the cumulative annual deficits) as a percentage of GDP since 1940, including government projections through 2031. Notable increases occurred around World War II, the Great Financial Crisis, and the COVID-19 pandemic.

Opinions vary widely on how much debt is too much; that is, at what point a growing federal debt burden causes higher interest rates and/or inflation.

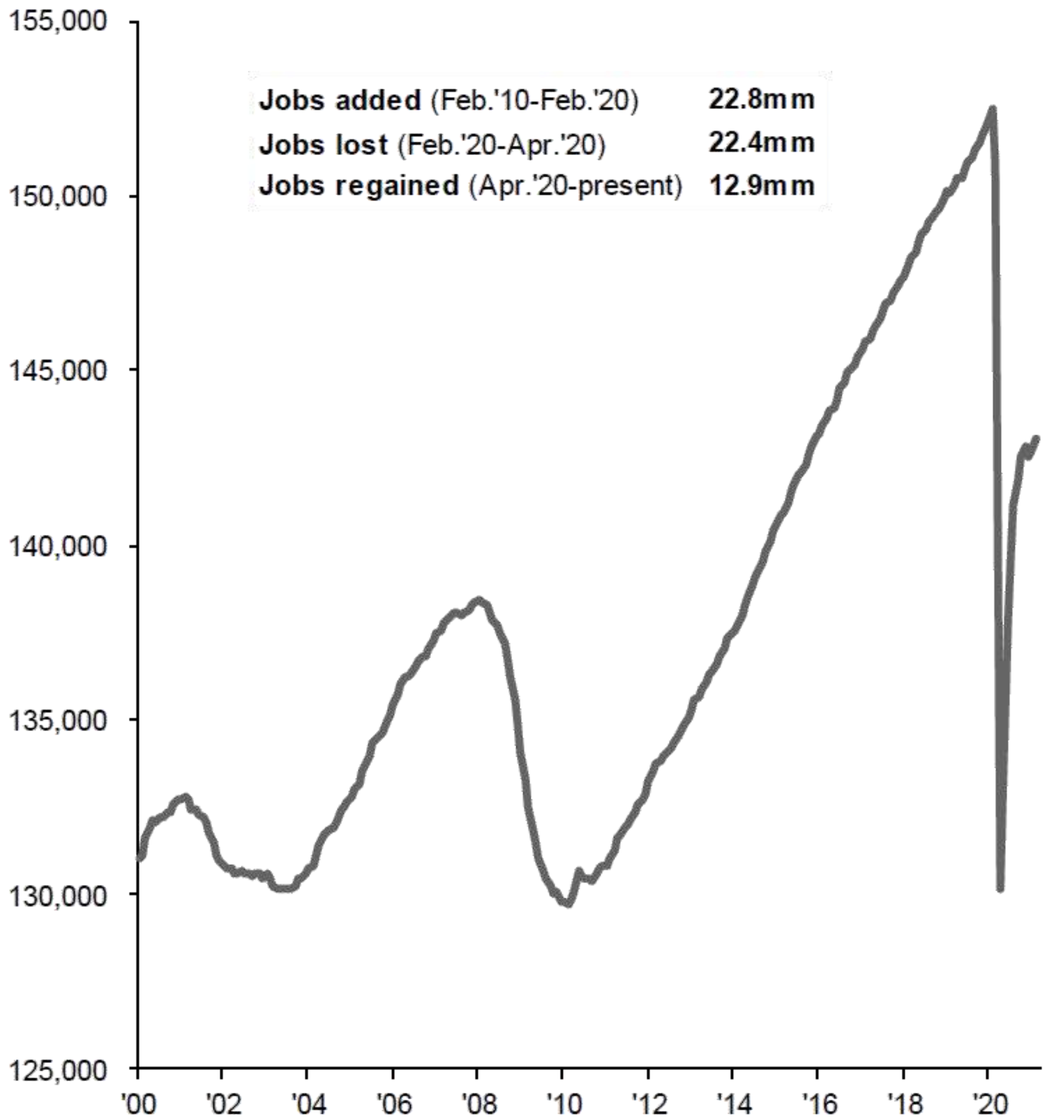
Source: BEA, Treasury Department.
Estimates are based on the Congressional Budget Office (CBO) February 2021 Baseline Budget Forecast adjusted to account for the impact of the American Rescue Plan Act of 2021. Guide to the Markets –U.S. Data are as of March 31, 2021.

Payroll Employment

First Quarter 2021

Employees on total nonfarm payrolls

Thousands



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management.
Guide to the Markets –U.S. Data are as of March 31, 2021.

This chart shows the number of workers on private payrolls in the US. The decline at the start of the pandemic last year erased all job gains over the previous ten years. Although there has been a sharp recovery in jobs, the chart makes clear we have a long way to go (more than 13 million jobs) just to return to the pre-pandemic employment trend line.

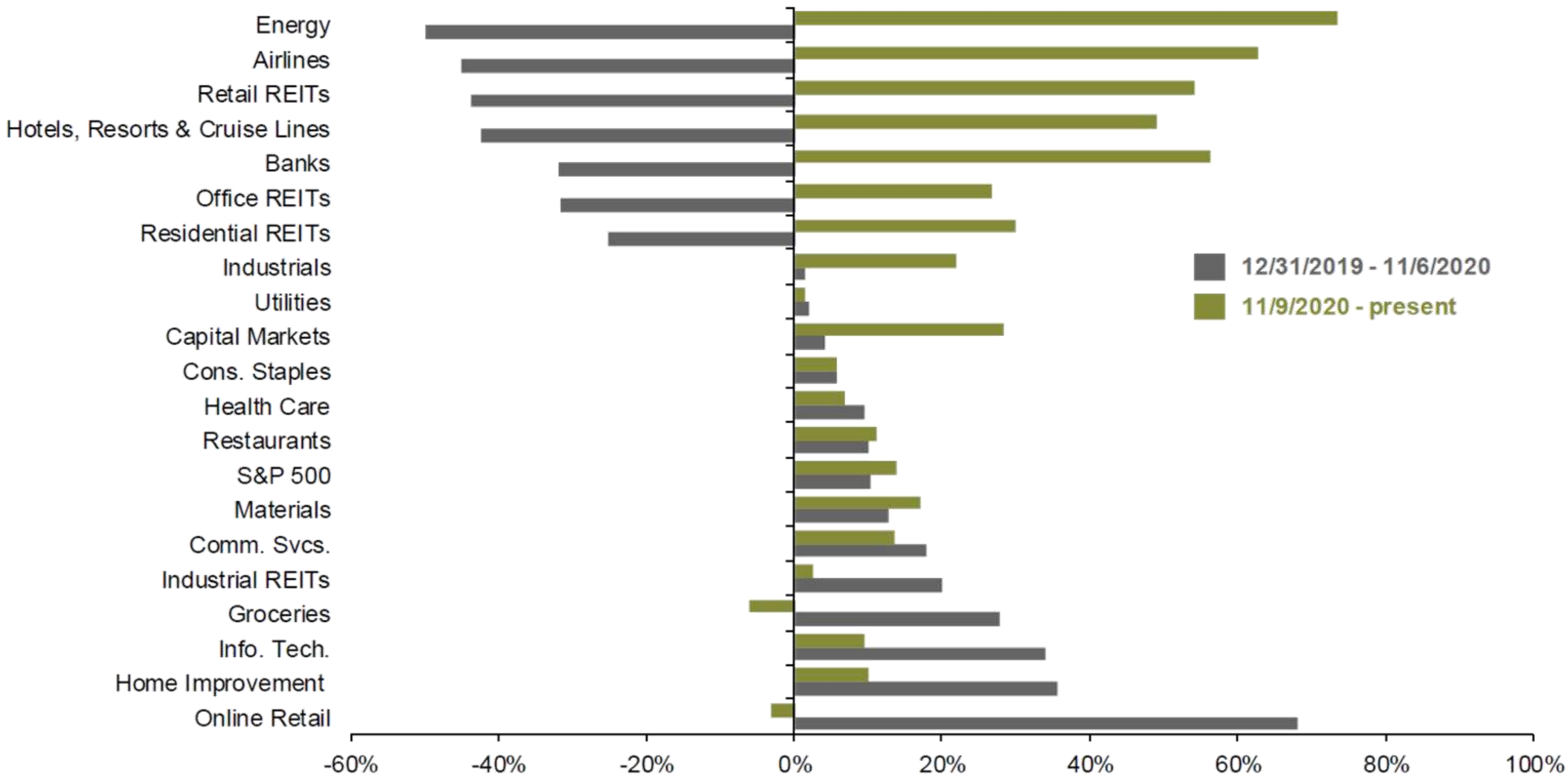
Sector Leadership Through the Pandemic

First Quarter 2021

This chart shows total returns by sector and industry over two periods: between December 31, 2019 and November 6, 2020 (the last business day before Pfizer's vaccine candidate was revealed to have more than 90% efficacy against COVID-19 in global trials), and from November 7, 2020 to March 31, 2021. Note the reversal in "winners" and "losers" in equity markets since the first vaccine was announced, reflecting the anticipated recovery of the in-person economy.

Returns before and after November 6, 2020

Total returns by sector and industry



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. November6, 2020 chosen as the last business day before vaccine candidate is revealed to have more than 90% efficacy against the COVID-19 virus in global trials. The company referenced is for illustrative purposes only.
Guide to the Markets –U.S. Data are as of March 31, 2021.